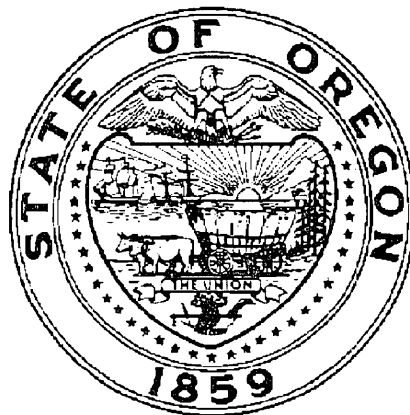


STATE OF OREGON

**DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

STATE ACCIDENT INSURANCE FUND CORPORATION
SALEM, OREGON

AS OF

DECEMBER 31, 2017

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**STATE ACCIDENT INSURANCE FUND CORPORATION
SALEM, OREGON**

NAIC COMPANY CODE 36196

AS OF

DECEMBER 31, 2017

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SALUTATION

May 14, 2019

Honorable Cameron Smith, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

STATE ACCIDENT INSURANCE FUND CORPORATION
400 High Street SE
Salem, Oregon 97312

NAIC Company Code 36196

Hereinafter referred to as "SAIF" or the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed a regular, single-state financial examination of the State Accident Insurance Fund Corporation as of December 31, 2017, covering the four year period then ended. The last examination was completed as of December 31, 2013. This examination covers the period of January 1, 2014, through December 31, 2017.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary

information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The State Accident Insurance Fund Corporation was created in 1979 as an independent public corporation by passage of Senate Bill 255. By this enactment, SAIF became the successor to the State Accident Insurance Fund, which was created for the purpose of transacting workers' compensation business formerly transacted by the State Industrial Accident Commission. The latter operated as the exclusive state workers' compensation agency from 1914 through 1965.

Regulation of SAIF

The provisions of ORS 731.028 exempt the Company from many of the Insurance Code requirements, except those covering rate filings, accounting methods, annual statement filings and examinations. SAIF is not subject to several of the provisions which limit insurer investments, such as the limitations ordinarily imposed on investments in mortgage loans (ORS 733.600), real property (ORS 733.610), stocks of corporations (ORS 733.620), stocks or obligations of subsidiaries (ORS 733.630), noninvestment grade securities (ORS 733.695), and many other such items. SAIF is exempt from the "prudent investor" and prohibited investment standards of ORS 733.670 and 733.780. SAIF is not legally empowered to control its own investments or investment decisions. SAIF's investments are subject to the control of the Oregon State Treasurer, pursuant to ORS 293.701 through 293.820.

SAIF is not subject to the statutory requirements of minimum required capital or surplus per ORS 731.554. Additionally, in the event of insolvency, SAIF is not subject to supervision, rehabilitation or liquidation statutes in ORS Chapter 734.

While SAIF is exempt from many of the Insurance Code sections, it is subject to regulatory requirements that are not applicable to other insurers. Some of these special regulatory requirements include: SAIF's Board of Directors is appointed by the Governor, SAIF's investment officer is the Oregon State Treasurer, SAIF's auditor is the Secretary of State, SAIF's legal firm is the Oregon Department of Justice, and SAIF is statutorily required to insure state agencies. In addition, SAIF's records are subject to public record laws.

CORPORATE RECORDS

Board Minutes

The provisions of ORS 656.751(6) and the Company's Bylaws, Section 5, require the Board to meet at least once every three months. The Board held meetings during the period examined in accordance with the statute and the Bylaws of the Company. The provisions of ORS 656.751(5) define a quorum as a majority of the members of the Board of Directors.

In general, the review of 2014 to 2017 Board meeting minutes of the Company, as well as the audit and compensation committees authorized by the Board, indicated that the minutes support the transactions of the Company and clearly describes the actions taken by its directors and officers. A quorum met at all of the meetings held during the period under review. The Board met quarterly and additional meetings were scheduled as necessary.

Articles of Incorporation

The Company has no Articles of Incorporation. The Board of Director requirements and the Company's purpose and function are defined by ORS 656.751 and ORS 656.752.

Bylaws

The Bylaws were most recently restated on June 12, 2012. There were no changes made to the Company's Bylaws during the period under examination. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Company is governed by a five member Board of Directors appointed by the Governor, subject to confirmation by the Oregon Senate. Directors are appointed to four-year terms, but serve at the pleasure of the Governor. Two members of the Board are chosen to represent the public and one of the remaining three members must be an insured or an employee of a SAIF insured. The Board of Directors met all the requirements of ORS 656.751. Board of Directors members appointed and serving as of December 31, 2017, were:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Last Appointed</u>
Krishna Balasubramani Portland, Oregon	Partner Sather, Byerly and Holloway, LLP	September 2013
Kevin A. Jensen Portland, Oregon	Iron Worker Union Representative Local #29	February 2014
Maurice J. Rahming Portland, Oregon	President O'Neil Electric Inc.	September 2014
Jeffrey A. Stone Portland, Oregon	Executive Director Oregon Association of Nurseries	September 2014
Jennifer L. Ulum* Eugene, Oregon	Public Affairs Director Peacehealth	September 2014

*Chairman

Officers

Principal officers serving at December 31, 2017, were as follows:

<u>Name</u>	<u>Office</u>
Kerry E. Barnett	President and Chief Executive Officer
Gina M. Manley	Vice President - Finance and CFO
Todd P. Graneto	Controller
Kathy L. Gehring	Vice President - Claims
Christine A. Vrontakis	Vice President - Policyholder Services
Kenneth R. Collins	CIO and Chief Technology Officer
Christine L. Witzke	Vice President - Marketing, Sales, and Communications
Bruce E. Hoffman	Vice President - Underwriting Services
Jennifer M. Webster	Vice President - Human Resources
Holly C. O'Dell	Vice President - Legal Services and Strategic Planning

FIDELITY BOND AND OTHER INSURANCE

A fidelity bond written by Fidelity and Deposit Company of Maryland insures the State of Oregon (including SAIF Corporation) against losses caused by their employees and officers dishonesty. This fidelity bond coverage met the NAIC recommended minimum coverage.

The purpose of self insuring is to pay reasonably for harm wrongly or negligently done by or on behalf of the state and to defend against claims that appear false or unfounded. These services are provided to state agencies by the Department of Administrative Services, Risk Management Division and the Department of Justice, Trial Division.

All other insurance coverage provided by the State of Oregon's Risk Management Division is as follows:

Boiler & Machinery Breakdown	Excess Real & Personal Property
Excess Property - Terrorism	Special Event Liability

The Company insures its own employees for workers' compensation.

Although the Company does not have directors and officer's coverage, directors and officers of the Company are afforded protection under the State of Oregon's tort laws, which limit the damages against employees performing services on behalf of the Company.

The above coverages were found to be adequate as of December 31, 2017.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

Pension Funds

The majority of the Company's employees participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. The PERS Board of Trustees administers the program under the guidelines of ORS Chapter 238. Beginning January 1, 2004, all covered employees are required by state statute to contribute 6.0 percent of their salary to the Individual Account Program (a defined contribution plan). Current law permits employers to pay its employees' contributions to PERS, which the Company has elected to do. The Company currently contributes 17.84 percent of each covered employee's salary to fund the PERS program. Rates are subject to change as a result of subsequent actuarial valuations.

Company employees hired on or after August 29, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) after completing six months of service. OPSRP is a hybrid pension plan administered by the PERS Board of Trustees with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Currently the Company contributes 10.78 percent of each covered employee's salary to the Pension Program and 6.0 percent to the Individual Account Program. Rates are subject to change as a result of subsequent actuarial valuations.

Along with other State of Oregon agencies, the Company participates in paying debt service on PERS bonds issued in October 2003 to reduce the unfunded PERS liability. The bonds are due to mature 25 years after the date of issuance. Currently the repayment rate is 6.2 percent of payroll each month. The payment rate is recalculated each state fiscal biennium.

Amounts contributed by the Company for all plans for the years ended December 31, 2017, and 2016 were \$18,141,542 and \$15,762,568, respectively.

Post Employment Benefits and Compensated Absences

On January 1, 2013, the Company adopted the provisions of SSAP No. 92, Accounting for Postretirement Benefits Other Than Pensions, providing new requirements for recording and calculating the liability and expense of postretirement benefits plans other than pensions. The Company chose to recognize the entire surplus impact of adopting SSAP No. 92 as of January 1, 2013, resulting in recognition of an accumulated postretirement benefit obligation (APBO) of \$9,918,881. The amount will be amortized over time through periodic charges to surplus. The balance was \$611,685 and \$1,438,256 at December 31, 2017 and 2016, respectively.

At December 31, 2017, the accumulated postretirement benefit obligation was \$10,454,496, \$611,685 of which is recorded as a write-in liability as APBO transition liability, and \$8,099,679 recorded as a liability in other expenses.

In addition, the Company has accrued obligations to former employees for benefits after their employment but before their retirement. A liability for earned but untaken vacation pay for current employees has been accrued.

Post Employment Benefits Unfunded Obligation

Because PERS is a multiemployer plan, the Company does not record the PERS unfunded actuarial liability on its balance sheet. All contributions to the plan are recognized as an expense and charged to surplus as they are required to be made. In order to be more transparent, the Company has segregated the unfunded portion in its surplus account as an “aggregate write-ins for special surplus funds” in accordance with SSAP No. 72, paragraph 13, in the amount of \$93,600,000.

TERRITORY AND PLAN OF OPERATION

The Company is a direct writer of workers' compensation insurance in the State of Oregon. The Company is not required to hold a Certificate of Authority.

The Company offers workers' compensation coverage under distinct rate tiers based on an employer's loss experience. These rate classes include select, preferred, standard, and three nonstandard classes. Rates are composed of a base rate, determined by the National Council on Compensation Insurance (NCCI) and approved by the Department of Consumer and Business Services, which and then multiplied by a loss cost multiplier determined by the Company. If an employer is unable to obtain coverage from an authorized insurer, the employer must obtain coverage through the State of Oregon's Workers' Compensation Insurance Plan (WCIP). The Company participates as a servicing carrier of the WCIP residual market and pays its proportionate share of pool losses in excess of pooled premiums.

In addition to different rate classes, the Company offers various forms of premium payment plans under premium calculation methods, such as the standard and retrospective plans. Under the standard plan, coverage is provided for a fixed premium paid on a monthly, quarterly, or yearly basis. The Company's retrospective premium plans are generally offered to larger employers and

premiums are based on the employer's actual loss experience, subject to maximum and minimum amounts. An employer's losses are evaluated at fixed periods following the end of a policy period.

The Company markets its business directly and through independent agents and has local offices throughout the state that offer loss control, marketing, premium audit, investigation and return-to-work services to policyholders. Local offices providing these policyholder services are in Bend, Eugene, Medford, North Bend, Portland and Salem with additional staff in other locations throughout the state.

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Net Income (Loss)</u>
2013*	\$ 4,764,566,929	\$ 3,582,288,848	\$ 1,182,278,081	\$ 102,772,981
2014	4,819,205,276	3,503,500,601	1,315,704,675	135,992,931
2015	4,794,677,903	3,370,694,704	1,423,983,199	116,276,257
2016	4,968,411,622	3,323,823,878	1,644,587,744	176,145,116
2017*	5,294,193,781	3,404,693,507	1,889,900,274	145,784,246

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were obtained from copies of the Company's filed annual statements and, where indicated, from the previous examination reports.

<u>Year</u>	(1) <u>Premium Earned</u>	(2) <u>Losses Incurred</u>	(3) <u>LAE & Other Underwriting Expenses</u>	(2)+(3)/(1) <u>Ratio</u>
2013*	\$ 435,175,657	\$ 240,558,347	\$ 159,893,704	92.02%
2014	474,610,365	200,603,568	166,379,093	77.32%
2015	491,133,574	237,738,878	172,524,160	83.53%
2016	516,509,525	198,260,836	185,817,596	74.36%
2017*	526,695,158	204,209,307	189,053,373	74.67%

*Per examination

A ratio of losses incurred, LAE, and other underwriting expenses to premium earned of more than 100% typically indicates an underwriting loss. The Company did not experience underwriting losses during the examination period, primarily due to the favorable loss development in each year under examination.

REINSURANCE

Assumed Reinsurance

Effective December 1, 2016 and expiring November 30, 2019, the Company entered into an agreement to assume workers' compensation insurance written by Zurich American Insurance Company and American Zurich Insurance Company (Zurich) under a 100% quota share fronting reinsurance agreement. This agreement covers workers' compensation insurance for workers based outside Oregon whose employers are based in Oregon and insured by the Company and is identified as its Other States Coverage (OSC) program. The underwriting of this business is handled by the Company. The assumed premium amount at December 31, 2017, was \$16,341,148. In accordance with the Reinsurance Trust Agreement (Trust) between the Company, Zurich and Wilmington Trust National Association, the Company has pledged assets with a book adjusted carrying value in the amount of \$33,176,145 supporting the outstanding obligations for that assumed business.

Ceded Reinsurance

At December 31, 2017, the Company's reinsurance program was comprised of workers' compensation catastrophe excess of loss. The Company's reinsurance agreement was obtained through a third party intermediary.

The Company maintains reinsurance protection providing limits of \$160 million excess of \$35 million per occurrence with a \$10 million maximum on any one life. This reinsurance protection excludes coverage for nuclear, biological, chemical, or radiological events in some or all instances. During 2017, the Company had reinsurance protection for terrorism losses for the industry in excess of \$140,000,000. The Company is covered with a deductible of 20% of its 2016 written premium for acts of foreign and domestic terrorism through the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA).

Effective October 1, 2017, the Company has reinsurance coverage through a First and Second Layer Workers' Compensation Catastrophic Excess of Loss Reinsurance Agreement ceding 100% of the interest and liabilities to various foreign and alien professional reinsurers. The first layer of reinsurance covers up to \$60 million ultimate net loss in excess of \$35 million retention each loss. The second reinsurance layer covers \$100 million ultimate net loss in excess of \$65 million retention each loss. Together the two layers of this reinsurance agreement establish an aggregate limit of \$195,000,000 for all occurrences. Workers' compensation policies written by the Company with maximum policy limits up to \$10 million on any one life are covered by this reinsurance agreement.

The following chart reflects the Company’s retention and reinsurance under this catastrophe Excess of Loss Agreement with various reinsurers, with the following terms:

Retention and Limit Schedule			
Layer	Retention Ultimate Net Loss in respect of each Loss Occurrence	Reinsurer’s Limit of Liability	
		In respect of each Loss Occurrence	Aggregate Limit of Liability for the term of this Contract
First Excess	\$35,000,000	\$60,000,000	\$120,000,000
Second Excess	\$95,000,000	\$100,000,000	\$200,000,000

Assigned Risk Pool (Both Ceded and Assumed)

The Company operates as a Servicing Carrier for NCCI in Oregon. Under the terms of the Servicing agreement the Company writes the Assigned Risk business and cedes 100% to NCCI Assigned Risk Pool, whereby NCCI retrocedes all the assigned risk pool premiums and policies out to workers’ compensation carriers writing in Oregon based on their percentage of the total workers’ compensation net written premium for Oregon. This resulted in the Company assuming \$31,550,481 in premium from the assigned risk pool.

Risk Retention

The provisions of ORS 731.504 generally prohibit an insurer from retaining risk on any one subject of insurance in excess of 10% of its surplus to policyholders. The Company, however, is not subject to this statute pursuant to ORS 731.028. Given the Company’s year-end 2017 surplus as regards policyholders of \$1,889,500,274, a single risk being greater than 10% of surplus is remote.

Insolvency Clause

The reinsurance agreement’s insolvency clause specifies that payments would be made to a statutory successor without diminution in the event of insolvency.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2017, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. From a review of the Company's internal controls and disaster recovery plan, it was determined that the current information system possessed the physical and internal controls as prescribed by the NAIC.

STATUTORY DEPOSIT

The Company is required to maintain a deposit with the Oregon Division of Financial Regulation, Department of Consumer and Business Services, pursuant to ORS 737.602. As of December 31, 2017, a certificate of deposit with a par value of \$108,000 was confirmed.

At December 31, 2017, the Company also has on deposit \$8,000,000 with the Federal Government under the U.S. Longshore and Harbor Workers' Compensation Act (LCHWCA).

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations or comments made as a result of the prior examination.

SUBSEQUENT EVENTS

At its September 12, 2018, Board meeting, the Company approved a \$120,000,000 policyholder dividend based on premium volume and an additional performance dividend of \$40,000,000 based on loss ratio and premium volume. SAIF incurred and paid policyholder dividends of \$159,938,850 to eligible policyholders on October 16, 2018.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

- Statement of Assets
- Statement of Liabilities, Surplus and Other Funds
- Statement of Income
- Reconciliation of Capital and Surplus Since the last Examination

STATE ACCIDENT INSURANCE FUND CORPORATION
ASSETS

As of December 31, 2017

<u>ASSETS</u>	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Bonds	\$3,875,308,540	\$ -	\$3,875,308,540	1
Common stock	589,330,561	-	589,330,561	1
Real estate				
Properties occupied by the company	71,463,153	-	71,463,153	
Cash, cash equivalents and short- term investments	139,263,137	-	139,263,137	
Other invested assets	21,264,019	-	21,264,019	
Receivable for securities	578,368	-	578,368	
Securities lending reinvested collateral assets	199,080,475	-	199,080,475	2
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>\$4,896,288,253</u>	<u>\$ -</u>	<u>\$4,896,288,253</u>	
Investment income due and accrued	33,565,174	-	33,565,174	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	6,956,715	-	6,956,715	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	302,066,576	-	302,066,576	
Accrued retrospective premiums	15,215,488	-	15,215,488	
Reinsurance		-		
Amounts recoverable	46,807	-	46,807	
Funds held or deposited	1,025,000	-	1,025,000	
EDP equipment and software	461,083	-	461,083	
Aggregate write-ins for other than invested assets	<u>38,568,685</u>	<u>-</u>	<u>38,568,685</u>	
Total assets	<u>\$5,294,193,781</u>	<u>\$ -</u>	<u>\$5,294,193,781</u>	

STATE ACCIDENT INSURANCE FUND CORPORATION
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2017

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Losses	\$2,289,539,131	\$ -	\$2,289,539,131	3
Loss adjustment expenses	444,189,903	-	444,189,903	3
Commissions payable	14,757,615	-	14,757,615	
Other expenses	38,375,796	-	38,375,796	
Taxes, licenses and fees	32,163,675	-	32,163,675	
Unearned premiums	232,192,612	-	232,192,612	
Advance premium	4,281,008	-	4,281,008	
Ceded reinsurance premium payable	3,062,693	-	3,062,693	
Amounts withheld or retained by company for account of others	40,969,880	-	40,969,880	
Remittances and items not allocated	124,772	-	124,772	
Payable for securities	47,511,099	-	47,511,099	
Payable for securities lending	199,062,958	-	199,062,958	
Aggregate write-ins for liabilities	<u>58,462,365</u>	<u>-</u>	<u>58,462,365</u>	
Total Liabilities	<u>\$3,404,693,507</u>	<u>\$ -</u>	<u>\$3,404,693,507</u>	
Aggregate write-in for special surplus funds	\$ 93,600,000	\$ -	\$ 93,600,000	
Gross paid in and contributed surplus	-	-	-	
Unassigned funds (surplus)	<u>1,795,900,274</u>	<u>-</u>	<u>1,795,900,274</u>	
Surplus as regards policyholders	<u>1,889,500,274</u>	<u>-</u>	<u>1,889,500,274</u>	
Total Liabilities, Surplus and other Funds	<u>\$5,294,193,781</u>	<u>\$ -</u>	<u>\$5,294,193,781</u>	

STATE ACCIDENT INSURANCE FUND CORPORATION
STATEMENT OF INCOME
For the Year Ended December 31, 2017

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Underwriting Income				
Premium earned	\$526,695,158	\$ -	\$526,695,158	
Deductions:				
Losses incurred	204,209,307	-	204,209,307	
Loss adjustment expenses incurred	82,556,836	-	82,556,836	
Other underwriting expenses incurred	106,496,537	-	106,496,537	
Aggregate write-ins for underwriting deductions	-	-	-	
Total underwriting deductions	<u>393,262,680</u>	<u>-</u>	<u>393,262,680</u>	
Net underwriting gain (loss)	<u>133,432,478</u>	<u>-</u>	<u>133,432,478</u>	
Investment Income				
Net investment income earned	141,330,895	-	141,330,895	
Net realized capital gains (losses)	<u>30,667,224</u>	<u>-</u>	<u>30,667,224</u>	
Net investment gain (loss)	171,998,119	-	171,998,119	
Other Income				
Net gain (loss) from agents' or premium balances charged off	(911,407)	-	(911,407)	
Finance and service charges not included in premiums	-	-	-	
Aggregate write-ins for miscellaneous income	<u>1,359,115</u>	<u>-</u>	<u>1,359,115</u>	
Total other income	<u>,447,708</u>	<u>-</u>	<u>,447,708</u>	
Net income before dividends to policyholders and FIT incurred	<u>305,878,305</u>	<u>-</u>	<u>305,878,305</u>	
Dividends to policyholders	160,094,059	-	160,094,059	
Federal income taxes incurred	-	-	-	
Net income	<u>\$ 145,784,246</u>	<u>\$ -</u>	<u>\$ 145,784,246</u>	

STATE ACCIDENT INSURANCE FUND CORPORATION
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2017	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	<u>\$1,664,587,744</u>	<u>\$1,423,983,199</u>	<u>\$ 1,315,704,675</u>	<u>\$1,182,278,081</u>
Net income	145,784,246	176,145,116	116,276,257	135,992,931
Change in net unrealized capital gains or (losses)	116,712,703	46,042,111	(13,484,933)	(4,022,856)
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-	-
Change in net deferred income tax	-	-	-	-
Change in non-admitted assets	(18,410,990)	(2,409,255)	(513,704)	(317,959)
Change in provision for reinsurance	-	-	-	947,905
Change in surplus notes	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Dividends to parent (cash)	-	-	-	-
Change in treasury stock	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>826,571</u>	<u>826,573</u>	<u>6,000,904</u>	<u>826,573</u>
Change in surplus as regards policyholders for the year	<u>244,912,530</u>	<u>220,604,545</u>	<u>108,278,524</u>	<u>133,426,594</u>
Surplus as regards policyholders, December 31, current year	<u>\$1,889,500,274</u>	<u>\$1,644,587,744</u>	<u>\$1,423,983,199</u>	<u>\$1,315,704,675</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

The Company's investments are held by the Oregon State Treasurer under the provisions of ORS 656.632. The Oregon Investment Council sets the investment goals and determines the asset allocations in accordance with ORS 293.726 and SAIF's business needs. At year-end 2017, the Company's total investment components were 79% fixed income securities, 12% equities and 2.8% Cash, Short Term and Cash Equivalents.

Most of the Company's long-term bond investments were in Industrial & Miscellaneous Corporate Issues, US Agencies, US Treasury, US Special Revenue and Hybrid issues. Many of the securities were mortgage-backed and asset-backed securities. A comparison of the investments to total admitted assets over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stock</u>	<u>C</u> <u>Cash, Short</u> <u>Term and</u> <u>Cash</u> <u>Equivalents</u>	<u>Ratio</u> <u>A/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total</u> <u>Assets</u>
2013	\$3,627,583,396	\$485,713,323	\$58,376,190	76.1%	10.2%	1.2%
2014	3,734,135,430	444,250,617	64,196,535	77.5%	9.2%	1.3%
2015	3,790,514,212	435,944,476	77,879,032	79.1%	9.1%	1.6%
2016	3,590,006,453	473,933,736	380,977,012	72.3%	9.5%	7.7%
2017	3,875,308,540	589,330,561	139,263,137	73.2%	11.1%	2.6%

* Balance per examination

Note 2 – Securities Lending Program

The Oregon Investment Council directed the Company's participation in a securities lending program. For the Company's securities lending arrangements, borrowers are required to deliver collateral for each loan equal to not less than 102%. Securities loaned as of year-end 2017 had a fair market value of \$196,762,159 or 4.2% of total cash and invested assets. The fair market value of collateral held was \$200,893,339 or 102.1% of loan securities. Net income earned from security lending during 2017 was \$284,115.

Note 3 – Actuarial Reserves

The Division of Financial Regulation retained Steven G. McKinnon, FCAS, MAAA, FCA, Principal of Oliver Wyman Actuarial Consulting, Inc., to conduct an actuarial review of SAIF's loss liabilities as of December 31, 2017. He examined the methods and assumptions used to

determine the stated reserves of the Company as determined by Kevin L. Wick, FCAS, MAAA, of the firm PriceWaterhouseCoopers LLP, who was appointed by the Board on June 7, 2017. Specifically, the items examined included: Losses, Loss adjustment expenses (LAE), Retrospective premiums payable and receivable, and Dividends to policyholders.

Mr. McKinnon concluded the losses and loss adjustment reserves (LAE) as stated were sufficient to provide unpaid claims cost as of December 31, 2017. Although his estimate of loss and LAE reserves was lower than the Company’s estimate, they were within his range. Mr. McKinnon also noted that claims cost are highly dependent on assumed values of future cost. If the assumptions for increase life expectancy, medical inflation and permanent total disability could increase reserves above the medical inflation, permanent total disability and increased life expectancy could significantly increase his estimate. In Mr. McKinnon’s opinion, the methods and assumptions used to determine retrospective receivables and payables were reasonable.

David Dahl, FCAS, MAAA, actuary for the Division of Financial Regulation, did a peer review of Mr. McKinnon’s assessment and concurred with the conclusion made.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments made to the Company’s surplus as a result of this examination and no recommendations were made.

CONCLUSION

During the four year period covered by this financial examination, the Company’s surplus increased from \$1,182,288,081, as presented in the December 31, 2013, financial report of examination, to \$1,889,500,274, as shown in this report of financial examination. Below are the comparative assets and liabilities:

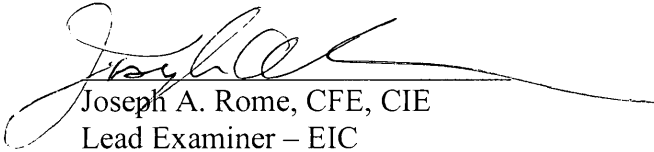
	<u>2017</u>	December 31,	<u>2013</u>	<u>Change</u>
Assets	\$5,294,193,781		\$4,764,566,929	\$ 529,626,852
Liabilities	<u>3,404,693,507</u>		<u>3,582,288,848</u>	<u>(177,595,341)</u>
Surplus	<u>\$1,889,500,274</u>		<u>\$1,182,278,081</u>	<u>\$ 707,222,193</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Khoa V. Nguyen, AFE, insurance examiner for the State of Oregon and Mike P. Phillips, CFE, CPA, AES, IT Specialist for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in the examination. In addition, Steven G. McKinnon, FCAS, MAAA, FCA, consulting actuary, with Oliver Wyman Actuarial Consulting, Inc., participated in the examination.

Respectfully submitted,



Joseph A. Rome, CFE, CIE
Lead Examiner – EIC
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

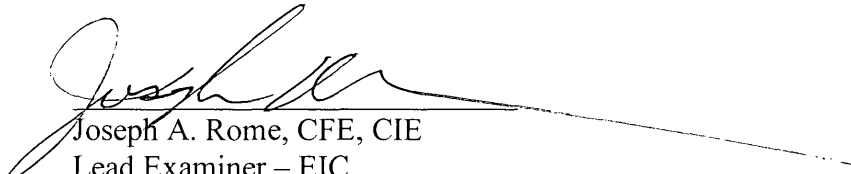
STATE OF OREGON)

County of Marion)

Joseph A. Rome, CFE, CIE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of State Accident Insurance Fund Corporation, Salem, Oregon.
2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of State Accident Insurance Fund Corporation was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.


Joseph A. Rome, CFE, CIE
Lead Examiner – EIC
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 1st day of July, 2019.

Lauren N. Bodine
Notary Public in and for the State of Oregon

My Commission Expires: 1/22/2022

